

**REPORT OF THE AUDIT OF THE
METCALFE COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

April 21, 2006



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
METCALFE COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

April 21, 2006

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes for Metcalfe County Sheriff as of April 21, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,222,645 for the districts for 2005 taxes, retaining commissions of \$91,813 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,113,460 to the districts for 2005 Taxes. Taxes of \$13,016 are due to the districts from the Sheriff.

Report Comment(s):

- The Sheriff Should Eliminate The Deficit Of \$2,096 In The Tax Account
- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Improve Record-Keeping Procedures
- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff Should Deposit Funds In Interest-Bearing Accounts

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Greg Wilson, Metcalfe County Judge/Executive
Honorable Rondal Shirley, Metcalfe County Sheriff
Members of the Metcalfe County Fiscal Court

Independent Auditor's Report

We have audited the Metcalfe County Sheriff's Settlement - 2005 Taxes as of April 21, 2006. This tax settlement is the responsibility of the Metcalfe County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Metcalfe County Sheriff's taxes charged, credited, and paid as of April 21, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 5, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Greg Wilson, Metcalfe County Judge/Executive
Honorable Rondal Shirley, Metcalfe County Sheriff
Members of the Metcalfe County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Eliminate The Deficit Of \$2,096 In The Tax Account
- The Sheriff's Office Lacks Adequate Segregation of Duties
- The Sheriff Should Improve Record-Keeping Procedures
- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff Should Deposit Funds In Interest-Bearing Accounts

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

January 5, 2007

METCALFE COUNTY
 RONDAL SHIRLEY, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

April 21, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 156,896	\$ 347,414	\$ 889,828	\$ 293,621
Tangible Personal Property	15,683	29,624	66,520	152,563
Intangible Personal Property				10,941
Fire Protection	1,505			
Increases Through Exonerations	218	412	926	1,050
Franchise Taxes	47,409	93,699	219,258	
Additional Billings	437	902	2,163	45
Oil and Gas Property Taxes	258	570	1,461	482
Penalties	1,532	3,362	8,589	2,889
Adjusted to Sheriff's Receipt	(23)	(44)	(157)	(48)
Gross Chargeable to Sheriff	<u>223,915</u>	<u>475,939</u>	<u>1,188,588</u>	<u>461,543</u>
<u>Credits</u>				
Exonerations	5,260	3,940	23,167	4,968
Discounts	2,166	4,820	11,917	6,762
Delinquents:				
Real Estate	3,628	7,978	20,433	6,742
Tangible Personal Property	63	118	266	129
Intangible Personal Property				47
Uncollected Franchise Taxes	<u>4,071</u>	<u>6,365</u>	<u>14,500</u>	
Total Credits	<u>15,188</u>	<u>23,221</u>	<u>70,283</u>	<u>18,648</u>
Taxes Collected	208,727	452,718	1,118,305	442,895
Less: Commissions *	<u>9,158</u>	<u>18,812</u>	<u>44,732</u>	<u>19,111</u>
Taxes Due	199,569	433,906	1,073,573	423,784
Taxes Paid	198,929	425,079	1,068,940	420,512
Refunds (Current and Prior Year)	<u>150</u>	<u>228</u>	<u>775</u>	<u>3,203</u>
Due Districts or as of Completion of Fieldwork	<u>\$ 490</u>	<u>\$ 8,599</u>	<u>\$ 3,858</u>	<u>\$ 69</u>

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

METCALFE COUNTY
RONDAL SHIRLEY, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES
April 21, 2006
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on		922,953
4% on		1,289,692

** Special Taxing Districts:

Library District	\$	3,299
Extension District		2,700
Soil Conservation District		11
Ambulance District		<u>2,589</u>
Due Districts	\$	<u><u>8,599</u></u>

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT

April 21, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT
April 21, 2006
Continued

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 21, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 26, 2005 through April 21, 2006.

Note 4. Sheriff's 10% Add-On Fee

The Metcalfe County Sheriff collected \$13,565 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of January 5, 2007, the Sheriff owed \$2,223 in 10% add-on fees to his fee account.

Note 5. Advertising Costs And Fees

The Metcalfe County Sheriff collected \$867 of advertising costs and \$2,155 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The advertising fees will be used to operate the Sheriff's office. As of January 5, 2007, the Sheriff owed \$867 in advertising costs and \$436 in advertising fees to his fee account.

Note 6. Deficit Balance

Based on available records, there is a \$2,096 deficit in the Sheriff's official tax account. This deficit is primarily a result of undeposited 2005 tax receipts. A Schedule of Excess of Liabilities Over Assets is included in this report as a supplemental schedule.

METCALFE COUNTY
 RONDAL SHIRLEY, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

April 21, 2006

Assets

Cash in Bank (All Tax Accounts)		\$	20,240
Deposits in Transit			3,069
Receivables:			
Collected			31,941
Uncollected:			
Due From 2006 Fee Account-			
Tax Commission Overpaid Fee Account	\$	8,553	
Due From 2005 Fee Account-			
Franchise Collections Deposited in Fee Account		2,685	
IRS Tax Levies		372	
			<u>11,610</u>
Total Assets			<u>66,860</u>

Liabilities

Paid Obligations			
Outstanding Checks	4,209		
Paid Liabilities	47,947		52,156
Unpaid Obligations-			
Other Taxing Districts-			
Kentucky State Treasurer	69		
Metcalf County Fiscal Court	490		
Metcalf County Board of Education	3,858		
Library	3,299		
Extension Service	2,700		
Soil Conservation	11		
Ambulance	2,589		
Refunds Due Taxpayers	258		
2006 Fee Account-			
10% Add-On Fees Due Sheriff's Fee Account	2,223		
Advertising Fees Due Sheriff's Fee Account	436		
Advertising Costs Due Sheriff's Fee Account	867		
			<u>16,800</u>
Total Liabilities			<u>68,956</u>
Total Fund Deficit as of April 21, 2006		\$	<u>(2,096)</u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Wilson, Metcalfe County Judge/Executive
Honorable Rondal Shirley, Metcalfe County Sheriff
Members of the Metcalfe County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Metcalfe County Sheriff's Settlement - 2005 Taxes as of April 21, 2006, and have issued our report thereon dated January 5, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Metcalfe County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Sheriff Should Eliminate The Deficit Of \$2,096 In The Tax Account
- The Sheriff's Office Lacks Adequate Segregation of Duties
- The Sheriff Should Improve Record-Keeping Procedures

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Metcalfe County Sheriff's Settlement -2005 Taxes as of April 21, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff Should Deposit Funds In Interest-Bearing Accounts

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

January 5, 2007

COMMENTS AND RECOMMENDATIONS

METCALFE COUNTY
RONDAL SHIRLEY, SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 21, 2006

INTERNAL CONTROL – REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

The Sheriff Should Eliminate The Deficit Of \$2,096 In The Tax Account

Based on available records, there was a deficit of \$2,096 in the Sheriff's official tax account. This deficit resulted primarily from undeposited 2005 tax receipts. We recommend the Sheriff eliminate the deficit with a deposit of \$2,096 from personal funds and, in the future, deposit all tax receipts intact on a daily basis along with reconciling daily collection reports to deposits.

Sheriff's Response: Sheriff will comply with recommendations.

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties over receipts and expenditures. Due to the entity's diversity of official operations, small size, and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to help offset this internal control weakness:

- The Sheriff should periodically compare daily bank deposits with the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled on paper and kept for records. The Sheriff could document his comparisons by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should compare the monthly tax reports to the receipts and disbursements ledgers. Any differences should be reconciled on paper and kept for records. This could be documented by initialing the monthly tax reports, receipts ledger, and disbursements ledger.
- The Sheriff should recount and deposit the cash daily. This could be documented by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should have dual signatures on all disbursement checks.

Sheriff's Response: I will comply with recommendations.

The Sheriff Should Improve Record-Keeping Procedures

Our test procedures indicated a number of areas where the Sheriff should improve record-keeping procedures. Our findings and recommendations for improvement are as follows:

- a) The Sheriff failed to reconcile daily deposits, daily cash receipts, and daily totals of paid tax bills. Furthermore, discounts were given to taxpayers over two weeks after the discount period with no documentation maintained to support when the payment was mailed or received. Auditor noted that some taxpayers were given a discount although their check appeared to be for the face amount. We recommend the Sheriff implement adequate daily cash checkout procedures to ensure the accountability of daily cash receipts.
- b) Reconciliation of monthly tax collection to the monthly tax distribution was not always performed. By reconciling these amounts, the Sheriff could ensure that all tax collected had been reported and paid to the taxing districts.

METCALFE COUNTY
RONDAL SHIRLEY, SHERIFF
COMMENTS AND RECOMMENDATIONS
As of April 21, 2006
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES
(Continued)

The Sheriff Should Improve Record-Keeping Procedures (Continued)

- c) Processing of franchise tax collections should be improved. Payments for franchise tax bills are, in some instances, held before being deposited to the official bank account. Franchise tax bills should be marked paid upon collection. The payment should be deposited within three business days into the official bank account and recorded on the receipts ledger.
- d) The Sheriff did not maintain the cash disbursements ledger properly. The Sheriff did not record all checks individually by payee, check number, and amount. We recommend the Sheriff comply with the Uniform System of Accounts by maintaining the cash disbursements ledger properly.
- e) The Sheriff did not maintain an accurate receipts ledger. KRS 134.160 requires the Sheriff to "keep an accurate account of all moneys received by him showing the amount, the time when and the person from whom received, and on what account." We recommend the Sheriff comply with KRS 134.160.
- f) KRS 68.210 requires the Sheriff prepare monthly bank reconciliations. Based upon our review of the Sheriff's records, it appears that the bank reconciliations were not completed properly. We recommend the Sheriff prepare monthly bank reconciliations and comply with this statute.
- g) A list of returned checks was not maintained. A list of returned checks noting the date of redeposit should be maintained. In addition, redeposit of returned checks should be made as separate deposits. The deposit slip should be marked as a redeposit of a returned check and the name of the party listed. Any uncollected returned checks should result in the corresponding tax bill being included on the delinquent tax list.

Sheriff's Response: Will comply with recommendations.

STATE LAWS AND REGULATIONS:

The Sheriff Should Deposit Funds Intact On A Daily Basis

During our audit it was noted that a number of payments were not recorded when received and were not deposited on a daily basis. KRS 68.210 requires the Sheriff to deposit all collections intact and on a daily basis. We recommend the Sheriff record all payments when received and that these funds be deposited intact on a daily basis.

Sheriff's Response: I have already complied with recommendations.

The Sheriff Should Deposit Funds In Interest-Bearing Accounts

The Sheriff deposited funds into a noninterest-bearing account. KRS 66.480 states, "the governing body of a . . . local government unit . . . may invest and reinvest money subject to its control and jurisdiction." We recommend the Sheriff deposit funds into an interest-bearing account.

Sheriff's Response: The accounts are now interest-bearing accounts.

METCALFE COUNTY
RONDAL SHIRLEY, SHERIFF
COMMENTS AND RECOMMENDATIONS
As of April 21, 2005
(Continued)

PRIOR YEAR:

The prior year audit report contained the following comments and recommendations, which have not been corrected:

The Sheriff Should Eliminate The Deficit In The Tax Account

Sheriff's Response: Deposits will be made immediately from personal funds of Sheriff and deposits are being made daily now and in future.

The Sheriff's Office Lacks Adequate Segregation Of Duties

Sheriff's Response: None

